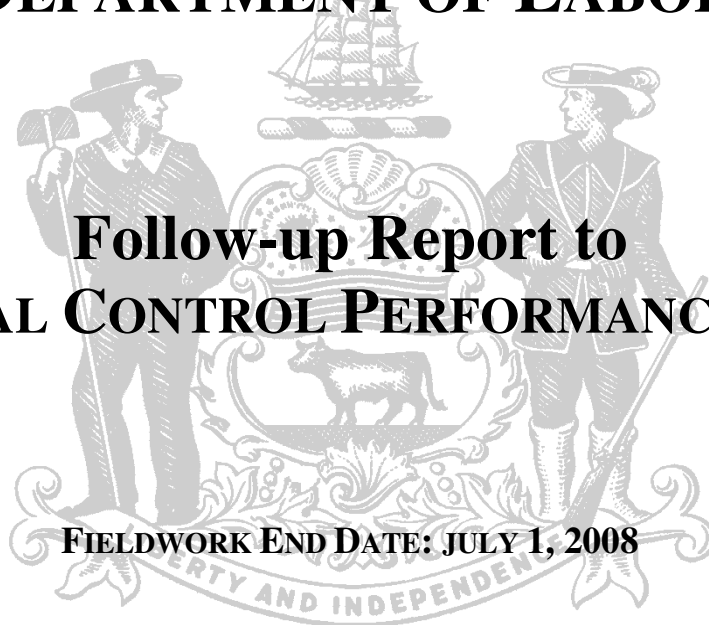


**STATE OF DELAWARE**  
**OFFICE OF**  
**AUDITOR OF ACCOUNTS**

**DEPARTMENT OF LABOR**

**Follow-up Report to**  
**INTERNAL CONTROL PERFORMANCE AUDIT**



**FIELDWORK END DATE: JULY 1, 2008**

**R. THOMAS WAGNER, JR., CFE, CGFM, CICA**  
**AUDITOR OF ACCOUNTS**

Townsend Building, Suite 1  
401 Federal Street  
Dover, DE 19901  
TELEPHONE (302) 739-4241  
FACSIMILE (302) 739-2723  
[www.state.de.us/auditor/index.htm](http://www.state.de.us/auditor/index.htm)

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# AUDIT AUTHORITY

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Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to perform post audits of all the financial transactions of all State agencies. The law requires that the audits be made in conformity with generally accepted auditing principles and practices. Such principles and practices are established by two standard setting bodies: the American Institute of Certified Public Accountants, which has issued generally accepted auditing standards; and the U.S. General Accounting Office, which has issued generally accepted government auditing standards.

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# BACKGROUND

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The Office of Auditor of Accounts (AOA) issued a performance audit report for the Department of Labor entitled *Department of Labor, Internal Control Performance Audit*. The objective of the audit was to determine if the Divisions' internal control structure governing revenue generation and procurement at the process, transaction, and application levels are adequate to safeguard the State's assets. Testing was performed at the following Divisions within the Department of Labor:

- Division of Employment and Training (DET)
- Division of Industrial Affairs (DIA)
- Division of Vocational Rehabilitation Services (DVR)

AOA determined that DET, DIA, and DVR's internal control structure is adequate to safeguard the State's assets.

In evaluating the Divisions' internal control structure, AOA did not identify any material weaknesses or reportable conditions. However, AOA identified several performance improvement opportunities in the following areas:

- Policies and procedures of the Divisions were not updated to reflect current operating processes and/or did not include authorization, reconciliation, or segregation of duties. As a result, processes may not be properly communicated and consistently followed. Also, there is no assurance that new personnel will have adequate guidance in performing their assigned tasks.
- Authorization: Approval of transactions and access to assets and records were not appropriately limited.
  - Possession of DIA and DVR facsimile signature stamps was not limited to the persons whose signatures were on the stamps.
  - DVR and DET SuperCard spending limits were excessive, and a DET SuperCard was not deactivated upon termination of an employee.
  - DVR and DET petty cash account authorizations are excessive considering the minimal activity.
- Reconciliation: DVR did not maintain a continuous petty cash book balance and as a result, did not reconcile book balance to bank statements. To determine assessment amounts, DIA relies on information submitted by self-insurers and insurance carriers. There is no independent audit or verification of amounts reported by the self-insurers and insurance carriers.
- A lack of segregation of duties existed within DET and DVR. Duties should be segregated to reduce the possibility of error or inappropriate action.
- Instances of noncompliance with the State of Delaware *Budget and Accounting Manual* and generally accepted accounting practices were identified, including untimely deposits and missing documentation.

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# BACKGROUND

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DET, DIA, and DVR responded to the findings and recommendations, indicating their intent to comply with AOA's recommendations.

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# OBJECTIVE, SCOPE, AND METHODOLOGY

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## **OBJECTIVE AND SCOPE**

The objective of the follow-up engagement was to identify and evaluate the adequacy of management actions in response to the findings and recommendations included in the *Department of Labor, Internal Control Performance Audit* report.

The scope of this engagement, a non-audit service, was limited to the findings and recommendations in the aforementioned report. Testing of the status of the previous recommendations was performed for the period from July 1, 2007 through April 30, 2008.

## **METHODOLOGY**

Procedures consisted of interview and inquiry of key personnel, inspection and confirmation of documentation, and observation. The current status of findings and recommendations was reported as follows:

- |                        |   |
|------------------------|---|
| Implemented:           | The concern has been addressed by implementing the original or an alternate corrective action.  |
| Not Implemented:       | The corrective action has not been initiated.   |
| Partially Implemented: | The corrective action has been initiated but is not complete and the auditor has reason to believe management fully intends to address the concern. |

# STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

The following table summarizes prior year findings, recommendations and the results of the current year follow-up engagement for the *Department of Labor, Internal Control Performance Audit*.

Finding	Recommendation	Current Year Status
<b><i>Policies and Procedures</i></b>		
<u><i>DIA - Failure to Provide Copy Fee Receipts and Establish Complete Policies and Procedures</i></u> - A review of DIA's current Document Processing Procedures found that the policies and procedures do not address the process of receiving the copy requests, processing them, determining the total cost, and calling the requester to notify amount due for copy fees.	<p>DIA provide pre-printed, pre-numbered, triplicate receipts for all cash (currency) received, distributed as follows: original payer, copy maintained with bank deposit slip and supporting documentation, and copy retained in file. The current Worker's Compensation Request for Copy of Public Document form can be reformatted to comply with the audit recommendation.</p> <p>DIA establish and document written procedures relating to copy fee requests to address the entire process from the initial receipt of the request to the processing of the cash receipt document. At a minimum, the procedures should include the following:</p> <ul style="list-style-type: none"> <li>Assigned personnel must accurately record all copy fee revenue transactions on sequentially, pre-numbered written receipts at the time of the transaction. The copies of the receipts must be accounted for and be retained for reconciliations.</li> <li>Unannounced cash counts shall be performed to reconcile amounts received to the amounts recorded on the receipts. All overages and shortages should be investigated and resolved.</li> <li>DIA should reconcile receipts to deposit slips, and then to postings in the books and bank statements.</li> </ul>	Partially Implemented – Unannounced Cash Counts were not included in the updated policies and procedures.
<u><i>DET &amp; DVR - Lack of Returned Vendor Check Policies and Procedures &amp; Adequate Documentation</i></u> - In several instances during FY05, the Divisions requested that the State Treasurer's Office return the checks to the Division	DET and DVR implement policies and procedures for transactions in which checks are returned to the Divisions for mailing or distribution. In order to maintain proper segregation of duties between authorization,	Implemented.

# STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Finding	Recommendation	Current Year Status
for mailing or delivery to the payee. The Divisions do not have written policies and procedures related to checks returned to the Divisions for mailing or delivery. In addition, the supporting documentation for the payment vouchers did not indicate the dates the checks were mailed or delivered to the payee.	recordkeeping and custody, checks should not be returned to the person within the Divisions that recorded or approved the disbursement. Whenever possible, checks should be mailed directly by the State Treasurer's Office. The Divisions should maintain documentation supporting the disbursement of the check. One method to track returned checks would be to establish a manual tracking spreadsheet. This spreadsheet should list the vendor, check number, check date, and either the date the check was mailed or the signature of the person to whom the check was delivered, and the date of delivery.	
<u>DET - Lack of Written Policies and Procedures for the Petty Cash Account</u> - DET does not have written policies and procedures related to its petty cash account.	DET develop written policies and procedures for the petty cash account. These policies and procedures should, at a minimum, address the duties of authorization, recordkeeping, and custody to include reconciliation requirements, management/supervisor approval requirements, replenishment guidelines, and physical security requirements.	Implemented.
<u>DIA - Insufficient Revenue Generation Policies &amp; Procedures</u> - DIA has insufficient policies and procedures related to the revenue generation and collection process. DIA currently has a "Document Processing Procedures" policy. However, key issues not addressed by this policy include providing cash receipts, reconciliation procedures, clearly defined depository procedures, and unannounced cash counts.	DIA expand policies and procedures related to the revenue generation and collection process. The following are, at a minimum, suggested guidelines/controls that should be incorporated into the procedures: <ul style="list-style-type: none"> <li>Method of documenting cash receipts - All collections must be recorded at the time of receipt. Computer generated receipts, pre-numbered receipt books, or tickets are examples of acceptable forms of documentation. Receipts should include: payer's name, amount of payment, date of payment, and initials or signature of employee collecting funds.</li> <li>Reconciliation procedures - Cash receipts must be reconciled to the source documentation on a regular basis to ensure all funds are properly deposited and recorded. Ideally, reconciliations</li> </ul>	Partially Implemented – Unannounced Cash Counts were not included in the updated policies and procedures.



# STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Finding	Recommendation	Current Year Status
	<p>should be done daily and monthly. Someone other than the person receiving funds must be responsible for a daily reconciliation of receipts. Any overages and shortages discovered in the reconciliation process should be documented and approved by a supervisor. If there appears to be a pattern of overages or shortages, this information should be disclosed immediately to the Director. A monthly bank reconciliation should also be performed within 30 days of the statement date. This comparison should include the verification that the bank records all funds received and deposited.</p> <ul style="list-style-type: none"> <li>• Depository procedures - All cash received must be deposited in accordance with the State of Delaware <i>Budget and Accounting Manual</i>, Chapter VIII, "deposits to a designated bank account should be deposited on the day of receipt, with the exception of those funds received after the close of normal banking hours or when an agency receives less than \$100 in daily receipts. Those agencies which do receive less than \$100 in daily receipts, shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever comes first."</li> <li>• Frequent and unannounced cash counts - In accordance with the State of Delaware <i>Budget and Accounting Manual</i>, Chapter VIII, "frequent and unannounced cash counts will be conducted by disinterested agency personnel." Unannounced cash counts assist in assessing compliance with internal controls and procedures, detecting errors or irregularities timely, and ensuring that proper safeguards are in</li> </ul>	

# STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Finding	Recommendation	Current Year Status
	place. A disinterested individual should conduct the unannounced cash counts at random periods. For example, information/amounts contained on the Worker's Compensation Request for Copy of Public Document forms could be reconciled against the cash/checks that are maintained in the locked file drawer to entries made into the Copy Charge Program for the particular day.	
<u>DIA - Insufficient Worker's Compensation Fund Procedures</u> - DIA does not have adequate policies and procedures in place for the Worker's Compensation Fund.	DIA develop adequate written policies and procedures for the Worker's Compensation Fund. These policies and procedures should address, at a minimum, the following: Custodial duties and responsibilities; Management/supervisor approval requirements; Physical security requirements; Disbursement guidelines; Voiding checks; Reconciliation frequency and review; Use of facsimile stamp; Investigation of outstanding check; Depository procedures; Reference to processing/creating documents in OMS.	Implemented.
<u>DET &amp; DVR - Insufficient Cash Management Procedures</u> - The cash management procedures for monitoring and performing drawdown of federal grants for DET and DVR are insufficient. Key issues that are not addressed in the Divisions' written policies and procedures include preparation of the financial documents (i.e. cash receipt and intergovernmental vouchers), approvals required on the documents, procedures for processing the documents in OMS, required supporting documentation, and reconciliation procedures. The following were also not identified in DET's procedures: individuals tasked with reviewing the appropriation balances, printing the daily validity reports, and drawing down the grant funds in Mobius.	DET & DVR implement sufficient policies and procedures for monitoring and performing drawdowns of federal grants. At a minimum, the following are suggested guidelines/controls that should be incorporated into the procedures: Individuals responsible for preparation of the financial documents (i.e. cash receipts, cash adjustments, and intergovernmental vouchers); Approvals required on the documents; Procedures for processing the documents in OMS; Required supporting documentation; Reference to receiving check refunds from vendors; Reconciliation procedures; Individuals tasked with reviewing the appropriation balances, printing the daily validity reports, and drawing down the grant funds in Mobius.	Implemented.
<u>DET - Insufficient Contractor Reimbursement Procedures</u> - DET's Contractor Reimbursement Procedures are insufficient. Key issues that were	DET implement sufficient policies and procedures for contractor reimbursements. At a minimum, the following are suggested guidelines/controls that should be	Implemented.

# STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Finding	Recommendation	Current Year Status
not addressed include: reference to processing documents in OMS, persons/positions tasked with responsibilities, reference to authorized signers, and reconciliation procedures.	incorporated into the Division's Contractor Reimbursement Procedures: <ul style="list-style-type: none"> <li>• Reference to processing documents in OMS.</li> <li>• Persons/positions tasked with responsibilities.</li> <li>• Reference to authorized signers.</li> <li>• Reconciliation procedures.</li> </ul>	
<i><u>DIA – Lack of Outstanding Check Policies and Procedures</u></i> - DIA does not have established written policies and procedures with regards to reviewing outstanding checks for all bank accounts. DIA does not review and adjust old, outstanding checks in a timely manner for the Petty Cash and Wage Claim accounts. In addition, DIA does not have a process for reviewing escheatable items in accordance with 12 Del. C., §1198. According to 12 Del. C., §1198, escheatable property is defined as, "property which is subject to escheat to the State ...." for a full and continuous period of five years.	DIA establish written policies and procedures with regards to outstanding checks for all bank accounts. At a minimum, the procedures should include the following: <ul style="list-style-type: none"> <li>• Investigating outstanding checks in a timely manner and making the appropriate adjustments.</li> <li>• Establishing dollar limit of checks for stop payments. The Department should consider the expense in bank charges and administrative time of stop payment orders on checks for small amounts. Smaller amounts should instead be cancelled on the Division's records.</li> <li>• Process for escheating funds, if applicable, in accordance with 12 Del. C., §1198. DIA should make the appropriate adjustments for old, outstanding checks at least once each fiscal year and verify that checks are actually voided or reissued and properly reflected in the accounting records.</li> </ul>	Implemented.
<b><i>Authorization</i></b>		
<i><u>DET &amp; DVR – SuperCard Spending Limit Too High</u></i> Two of three DET's SuperCard users' spending limits tested were deemed excessive based on the level of spending the cardholders incurred during the period July 1, 2005 through January 19, 2006. One cardholder had no transactions and the other cardholder had total transactions of \$358 for the period examined. Both cards had spending limits of \$10,000 each. One out of two DVR SuperCard user's spending limits tested was	The monthly credit card transaction limits should be evaluated (at least quarterly), and assessed at more conservative levels in order to minimize the State's exposure to loss.	DET - Implemented. DVR - Not Implemented.

# STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Finding	Recommendation	Current Year Status
deemed excessive based on the level of spending the cardholder incurred during the period July 1, 2005 through January 19, 2006. During the period examined, the highest spending in one month was \$3,407 and the monthly spending limit was set at \$15,000. DVR & DET management does not compare spending limits to actual average spending to determine the reasonableness of the card's settings.		
<u>DET – SuperCard Not Deactivated Timely</u> The SuperCard of one terminated individual of DET was not deactivated in a timely manner. The employee was terminated December 13, 2005 yet had an active card status as of January 19, 2006.	Upon termination of an employee, DET should deactivate the terminated employee's SuperCard within 24 hours. In addition to promptly deactivating SuperCards upon termination, DOL should update the employee termination checklist. At a minimum, the checklist should include: deactivating the card status; surrendering the credit card and any access badges to the building; and removing authorized signers from signature cards.	Implemented.
<u>DET &amp; DVR – Excessive Petty Cash Balances</u> - DET's petty cash fund is authorized to have a balance of \$3,475; however, the lowest monthly balance of the petty cash account was about \$2,800. The balance of \$3,475 is excessive considering the minimal dollar activity recorded through the account. DVR's petty cash fund is authorized to have a balance of \$8,000; however, the average monthly disbursements from the petty cash account totaled \$500. The balance of \$8,000 is excessive considering the minimal dollar activity recorded through the account.	DET take steps to reduce its petty cash balance from \$3,475 to \$1,000, or \$2,000. DVR take steps to reduce its petty cash balance from \$8,000 to \$1,000.	Implemented.
<u>DIA &amp; DVR – Improper Use and Maintenance of Facsimile Signature Stamps</u> - The persons whose signatures are on the stamps are not always the individual(s) applying the signature to the checks and the authorized individuals do not always maintain possession of their own stamp. In addition, the audit team was informed that an individual's signature stamp	The person(s) whose signature is on the stamp(s) should (1) apply the signature to the checks after proper review, and (2) maintain possession of his/her own stamp(s). Additionally, written policies and procedures should be revised to address the proper authorization and approval.	DIA – Partially Implemented – The policies regarding facsimile signatures stamps are in place but not the procedure. According to the Division, in some

# STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Finding	Recommendation	Current Year Status
<p>is easily accessible to unauthorized persons because the stamp is maintained by the typists and left unsecured in an open area.</p> <p>DVR authorizes the Senior Fiscal Administrative Officer, Management Analyst III, and Senior Accountant to have facsimile signature stamps to approve financial documents. The authorized individuals do not maintain possession of their own stamp.</p>		<p>situations the signature stamps are being used by the staff. The signature stamps are mainly used for workers compensation checks. The division has four authorized signers, and on check day where there are a significant amount of workers compensation checks to be signed, staff members have the permission to sign the checks using the facsimile signature stamp by the authorized signers. Once done with the stamp, the staff member returns the stamp to its rightful owner.</p> <p>DVR - Implemented.</p>
<b>Reconciliation</b>		
<p><u>DVR – Use of OMS to Track Petty Cash Activity and Petty Cash Reconciliations Not Timely</u> – DVR uses OMS to record disbursements from the petty cash account. DVR does not utilize OMS to record deposits or to provide a continuous book balance. When preparing bank reconciliations, DVR uses the bank balance and (1) deducts outstanding checks per a manual review of checks written, and (2) adds outstanding deposits to obtain a "book" balance. However, with the current system of recording petty cash account activity (OMS) there is no book balance to compare to or confirm. DVR receives bank statements for its petty</p>	<p>DVR research the features within OMS and determine if the system can record deposits and provide a running book balance to ensure a proper method of performing reconciliations. If OMS does not contain the required features, DVR should utilize another system such as Quicken or Excel. In addition, DVR prepare and review petty cash reconciliations on a timely basis.</p>	<p>Implemented.</p>

# STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Finding	Recommendation	Current Year Status
cash account twice a month; therefore, DVR reconciles the account twice monthly. Five out of twenty-four FY05 bank reconciliations were tested. One out of five reconciliations was not prepared timely. (1) The March 1, 2005 - March 15, 2005 reconciliation was not prepared or reviewed until April 7, 2005.		
<u><i>DIA - Relying on Information Submitted From Insurance Carriers</i></u> - DIA collects and bills self-insurers and insurance carriers for self-insurer tax and administrative expense and insurance carrier 1% assessments. The Division mails out the appropriate forms to the self-insurers and insurance carriers and relies upon the information submitted. There appears to be minimal controls in place to ensure that the information reported by the self-insurers and insurance carriers is accurate. The lack of verification leads to potential loss of revenue.	DIA implement policies and procedures to ensure that the information reported by the self-insurers and insurance carriers is accurate. One means of improving control in this area would be to require the self-insurers and insurance carriers submit supporting documentation with the form(s). Once the forms and supporting documentation have been received, an employee(s) should review the information and, if necessary (with adequate resources) perform an on-site audit.	Partially Implemented - Division is still working on procedures for information reported by self insurers.
<b><i>Segregation of Duties</i></b>		
<u><i>DET - Lack of Segregation of Duties Over Transactions</i></u> During testing of expenditure transactions for DET, one of forty-one transactions reviewed was not properly authorized. It was determined that an authorized signer approved payment of his own cell phone bill.	DET improve controls over the process of expenditure transactions by separating key duties or by increasing supervision and oversight of certain activities.	Implemented.
<u><i>DVR - Lack of Segregation of Duties Within OMS</i></u> - All OMS and DFMS users of the Division of Vocational Rehabilitation can prepare, enter, and approve documents in OMS. They can also upload the documents in OMS into DFMS.	In accordance with DOA upload security guidelines, DVR develop procedures for monitoring OMS transactions to ensure proper segregation of duties between those creating and updating transactions, and those approving transactions.	Implemented.
<b><i>Compliance with the State of Delaware Budget and Accounting Manual and Generally Accepted Accounting Practices</i></b>		
<u><i>DVR - Cash Receipt Deposits Not Made Timely</i></u> - Three out of twenty cash receipt deposits tested for DVR were not made timely due to lack of management oversight.	DVR should ensure that all deposits are made in accordance with State policy.	Implemented.

# STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Finding	Recommendation	Current Year Status
<u>DET – Missing Cancelled Checks</u> - DET could not locate three cancelled checks that were requested for inspection. Upon further inquiry, it was determined that all checks that cleared with the September 2004 bank statement had been misplaced.	DET should make every effort to maintain supporting documentation in its proper location.	Implemented.
<u>DET &amp; DVR – Replenishment Deposits Not Made Timely</u> - DET maintains a petty cash account. Replenishments are made to this account monthly to maintain the balance at approximately \$3,475. All twelve fiscal year 2005 petty cash replenishment deposits tested were not made timely. On average, the replenishments were deposited one week after receipt. Replenishment requests are prepared twice monthly for the Division of Vocational Rehabilitation's (DVR) petty cash account. During Fiscal Year 2005, six replenishment checks, detailed below, were not deposited timely. Staff of DVR did not research the untimely deposit of checks despite twice monthly reconciliations which listed the outstanding deposits. DVR staff was unable to explain why deposits were not made timely and where the checks were held from time of receipt until time of deposit.	DET and DVR should ensure that all deposits are made in accordance with State policy.	DET - Implemented.  DVR - Not Implemented.

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# DISTRIBUTION OF REPORT

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Copies of this report have been distributed to the following public officials:

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The Honorable Ruth Ann Minner, Governor, State of Delaware  
The Honorable Thomas Sharp, Secretary, Department of Labor  
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The Honorable Jennifer W. Davis, Director, Office of Management and Budget  
Ms. Trisha Neely, Director, Division of Accounting, Department of Finance

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The Honorable Russell T. Larson, Controller General, Office of the Controller General

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Ms. Kris Brooks, Controller, Department of Labor